Fitch Rates Hawaii's $225MM GO Bonds 'AA-' Underlying Ratings

21 Apr 2004 5:10 PM (EDT)

Fitch Ratings-New York-April 21, 2004: Fitch Ratings assigns a 'AA-' underlying rating to the State of Hawaii's $225 million general obligation bonds of 2004 series DD, expected April 28 through negotiation with UBS Financial Services Inc. and Citigroup. The bonds will be due May 1, 2009-24, and will be optionally callable at par on dates to be determined. Fitch affirms the 'AA-' rating on the state's $3.6 billion outstanding general obligation bonds. These bonds are expected to be insured by MBIA, whose insurer financial strength Fitch rates 'AAA'.

The rating reflects the strong debt security, with general obligation principal and interest representing a first charge on the general fund. Financial operations have been maintained soundly, even under prior stressful periods, and budgetary procedures are conservative with the state maintaining a six-year budget plan. Hawaii has a highly developed tourist economy, with extensive infrastructure and all-season attraction, supplemented by a significant military presence and agriculture, primarily specialty products. The state is also developing a growing medical presence. While the economy was affected in recent years by recession conditions in California and in Asia, the events of Sept. 11 had a sudden and severe impact on this airline-dependent state. Growth, although slow, resumed quickly and hotel occupancy rates have steadily risen. Westbound, domestic passenger gains are offsetting the continuing international declines, although the loss impact from the proportionately higher-spending Asian tourists remains.

Hawaii's tourist industry relies heavily on California and Japan. Recession in both areas in the early to mid-1990s caused weakness in both the economy and in tax collections. In the latter years of the decade, domestic travel rose strongly enough to afford a peak of about 7 million visitors in 2000. Although slowing growth was anticipated in 2001, the drop was precipitous following Sept. 11 with a 10% decline in total visitors and 17% internationally. Growth resumed in 2002 with an annual 1.4% gain, falling 0.7% in 2003 with the SARS outbreak in Asia as well as the war in Iraq causing a 9% decline in international visitors. However, visitor days continued to rise and the hotel occupancy rate again exceeded 72%. In the first quarter of 2004, stronger growth of westbound arrivals offset the ongoing, though lessening, international weakness, providing a 2.5% increase over the first quarter of 2003.

Financial balance has been maintained although there have been intermittent operating deficits. Revenues were revised upward in both fiscal 2000 and 2001 and the general fund balance grew to $350 million at June 30, 2001, falling to $134 million at the end of fiscal 2002 with revenue pressures. In fiscal 2003, revenues fell short of estimates, due primarily to the greater than expected tax credits on construction activities that were spurred by the low interest rates. A $117 million balance was achieved through expenditure controls, continuing to be employed in the current year, and the emergency and budget reserve fund held $53 million. Tax revenues were downwardly revised this year with a projected 5.2% gain now expected, and the ending balance is now forecast at $85 million with $54 million in the reserve. General fund revenues through nine months are up 5.5%.

Hawaii's government is highly centralized, with its four counties the only other governmental units, and the state is responsible for many functions such as education that are financed elsewhere in whole or in part by local units. As a result of this structure, debt is high although scheduled for very prompt retirement with about 75% of bonds due in ten years. Including this issue, tax-supported debt is equal to $3,448 per capita and 11.2% of personal income. While high, it is well below the 19% registered in 1975.

Contact: Ruth Corson Maynard +1-212-908-0596 or Claire G. Cohen +1-212-908-0552, New York.

Media Relations: James Jockle +1-212-908-0547, New York.